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TO: Supervisor Yvonne Brathwaite Burke, Chair
Supervisor Gloria Molina
Supervisor Zev Yaroslavsky
Supervisor Don Knabe
Supervisor Michael D. Antonovich

FROM: J. Tyler McCauley by PTM
Auditor-Controller

SUBJECT: **REVIEW OF GUARDIANS OF LOVE FOSTER FAMILY AGENCY – A
FOSTER FAMILY AGENCY FOSTER CARE CONTRACTOR**

Attached is our report on Guardians of Love Foster Family Agency (Guardians or Agency) fiscal operations for the period January 1, 2002 through December 31, 2002. Guardians is licensed to operate a Foster Family Agency (FFA) and, for the period of our review, had 102 children placed in 45 certified homes. During our review period, Guardians received \$1,996,527 from Los Angeles County in foster care funds. Guardians paid \$832,440 of this amount directly to foster parents. The Agency is located in the Second Supervisorial District.

Scope

The purpose of our review was to ensure that Guardians has complied with the contract and appropriately accounted for and spent foster care funds on allowable and reasonable expenditures in providing services to children placed in the Agency's care. We also evaluated the adequacy of Guardians accounting records, internal controls, and compliance with applicable federal, State and County fiscal guidelines governing the disbursement of FFA foster care funds.

Summary of Findings

We identified a total of \$66,244 in expenditures that we believe are not allowable because they are not program related (\$58,446) or for which the Agency did not have adequate documentation (original receipts, etc.) to support the expenditures (\$7,798). In addition, we noted several deficiencies in Guardians control over the receipt and

disbursement of foster care funds that may have contributed to the amounts discussed above. We also noted that Guardians needs to strengthen internal controls over fixed assets, bank reconciliations, credit card usage and personnel/payroll records. Details of our findings are discussed in the attached report.

We have recommended that DCFS resolve the unallowable and unsupported/inadequately supported expenditures and, if appropriate, collect all disallowed amounts. In addition, DCFS must ensure that Guardians management takes the appropriate corrective actions to address the recommendations in this report. Finally, DCFS must monitor to ensure that the corrective actions taken result in permanent changes.

Review of Report

We discussed our report with Guardians management on August 5, 2003. They have agreed to provide DCFS with a written response and corrective action plan within 30 days of the report date. In addition, DCFS has agreed to provide my office with a written response within 60 days detailing the resolution of all findings contained in the report. We thank Guardians management and staff for their cooperation during our review.

If you have any questions, please contact me, or have your staff contact DeWitt Roberts at (626) 293-1101.

JTM:DR:RL
Attachment

c: Chief Administrative Office
David E. Janssen, Chief Administrative Officer
Claudine Crank, Budget & Operations Management Branch
Department of Children and Family Services
David Sanders, Ph.D., Director
John Oppenheim, Chief Deputy Director
Genevra Gilden, Chief, Quality Assurance Division
Guardians of Love Foster Family Agency
Reverend Ralph Butler, Chief Executive Officer
Board of Directors
California Department of Social Services
Cora Dixon, Chief, Foster Care Audit Bureau
Sheilah Dupuy, Chief, Foster Care Rates Bureau
Public Information Office
Audit Committee
Commission for Children and Families

GUARDIANS OF LOVE FOSTER FAMILY AGENCY
REVIEW OF FOSTER FAMILY AGENCY CONTRACT

BACKGROUND

The Department of Children and Family Services (DCFS) contracts with Guardians of Love Foster Family Agency (Guardians or Agency), as a Foster Family Agency (FFA), to recruit, certify, train and support foster family homes and to provide treatment and support services for DCFS children placed in these homes. During our review period of January 1, 2002 through December 31, 2002, Guardians had 102 children placed in 45 certified homes. Guardians' is located in the Second Supervisorial District.

Under the provisions of the contract, the County pays Guardians a monthly rate for each child, based on the FFA Annual Treatment Rate determined by the California Department of Social Services (CDSS). For our review period, Guardians received a monthly rate between \$1,589 and \$1,865 per foster child and the Agency received a total of \$1,996,527 in FFA funds from Los Angeles County.

CDSS has also established minimum amounts the FFA is required to pay certified foster parents. Effective January 2, 2002, the FFA is required to pay a monthly rate between \$624 and \$790 per child, based on the age of the child. During the period of our review, Guardians paid a total of \$832,440 to foster parents.

APPLICABLE REGULATIONS AND GUIDELINES

Guardians' is required to operate its FFA in accordance with certain federal, State and County regulations and guidelines. We referred to the following applicable regulations and guidelines during our review:

- FFA Contract, including Exhibit F, Auditor-Controller Contract Accounting and Administration Handbook (A-C Handbook)
- Federal Office of Management and Budget Circular A-122 (Circular), Cost Principles for Non-Profit Organizations
- California Department of Social Services Manual of Policies and Procedures (CDSS- MPP)
- California Code of Regulations, Title 22 (Title 22)

REVIEW OF EXPENDITURES

We identified a total of \$66,244 in unallowable and unsupported/inadequately supported expenditures. Details of these expenditures are discussed below:

Unallowable Expenditures

We identified \$58,446 in expenditures which we do not believe are allowable under federal and State guidelines or the County's contract. Listed below are details of these expenditures.

Out of Court Settlements

Attachment B, Section 22 of the Circular states that actual losses incurred which could have been covered by permissible insurance (through the purchase of insurance or a self-insurance program) are unallowable. Guardians paid \$60,000, and the CEO contributed an additional \$12,500, to settle out of court with three former employees suing for sexual harassment. The lawsuits were filed against the CEO and the Administrator.

According to DCFS Contracts Division, the Agency's contract requires the Agency to carry professional liability coverage that covers sexual harassment allegations against officers of the Agency. We reviewed the Agency's insurance policies and the Agency did not carry this insurance coverage in 2001, when the lawsuits began. Of the \$60,000 paid, \$10,000 was paid from FFA funds and the remaining \$50,000 was from a Bank of America loan. The \$10,000 in FFA funds expended to settle these lawsuits represent an unallowable cost. In addition, the \$50,000 bank loan is in the Agency's name and has not been repaid. The Agency needs to ensure that FFA funds are not used in the repayment of this loan since the Circular prohibits the payment of actual losses that should have been covered by insurance.

Legal Fees

In addition to the out of court settlements discussed above, Guardians incurred \$47,379 in legal fees as a result of the sexual harassment lawsuits. If the Agency had the required insurance, these costs would not have been incurred. The A-C Handbook states that only those expenditures that are necessary, proper and reasonable to carry out the purposes and activities of the Program are allowable. Because the Agency did not carry the required insurance, it incurred legal fees that were not necessary and, therefore, not allowable. Furthermore, Guardians' paid \$5,000 of the legal fees as a retainer fee to their attorney. According to the CDSS-MPP, retainer fees for consultants, physicians, lawyers, and accountants are unallowable. Consequently, we question the entire \$47,379 in legal fees as an unallowable cost.

Interest Expense

According to the Circular, Attachment B Section 23(a), interest on borrowed capital or temporary use of endowment funds, however represented, are unallowable. In September 2002, Guardians borrowed \$50,000 from Bank of America. The loan was used for the out of court settlements discussed above. From October through December 2002, Guardians paid \$1,067 in interest payments on the loan. As a result, we have included \$1,067 as unallowable interest payments.

Unsupported/Inadequately Supported Expenditures

Per A-C Handbook, all revenues and expenditures shall be supported by original vouchers, invoices, receipts, cancelled checks or other documentation. Unsupported expenditures will be disallowed on audit.

During 2002, Guardians credit card expenditures totaled \$18,871. Of the credit card expenditures, \$7,798 was unsupported or was inadequately supported. These expenditures included purchases of meals, lodging, furniture, office supplies, gas, car rentals, food and beverages. Guardians' authorized credit card users included the CEO (also a member on the Board of Directors), his wife, the Quality Assurance/MAPP (Model Approach to Partnership in Parenting) Instructor (who also serves as the Vice President of the Board of Directors) and the Bookkeeper (niece of the CEO).

Recommendation

- 1. DCFS management resolve the \$66,244 in identified unallowable, unsupported and inadequately supported expenditures and, if appropriate, collect any disallowed amounts.**

In order to demonstrate the ability to appropriately account for foster agency funds and administer the program in compliance with the terms of their agreement with the County, Guardians should implement the following recommendations:

Recommendations

Guardians' management:

- 2. Maintain adequate supporting documentation for all FFA expenditures, including original itemized invoices and receipts.**
- 3. Ensure that foster care funds are used only for necessary, allowable and reasonable expenditures to carry out the purpose and activities of the FFA.**

4. **Ensure that FFA funds are not used to repay the \$50,000 loan from Bank of America.**

OVERPAYMENTS BY DCFS

Guardians recorded \$9,002 in overpayments that needs to be repaid to DCFS. While reviewing Guardians general ledger we noted that the Agency established a payable account entitled "DCFS Payables." These payables involve warrants issued by DCFS from 1999 through 2002. The Agency stated that the overpayments accumulated because the prior bookkeeper had not submitted repayments to DCFS as required.

Recommendations

5. **Guardians' management report all payment discrepancies to DCFS timely and repay the \$9,002 of overpayments to DCFS.**
6. **DCFS management monitor payments to foster care agencies more closely to ensure correct amounts are paid and any overpayments are resolved timely.**

CONTRACT COMPLIANCE AND INTERNAL CONTROLS

Our review disclosed several contract compliance issues and internal control weaknesses in addition to those already mentioned. These deficiencies may have contributed to the inappropriate expenditures discussed above. DCFS should ensure that Guardians management takes appropriate corrective actions to address each of the internal control recommendations in this report. DCFS should also monitor this contractor to ensure the corrective actions result in permanent changes.

Inadequate Accounting Procedures

Accountability for Fixed Assets

The A-C Handbook states that each contractor shall maintain a current listing of its fixed assets and that an inventory of fixed assets should be performed, at least annually, to ensure that all fixed assets are accounted for and maintained in proper working order. We found that the Agency's fixed asset report does not properly identify the asset nor indicate the serial number of the assets. For example, the description of many assets was identified as "office equipment." According to Guardians consultant, the Agency's fixed assets are capitalized at a cost of \$200 or more. The report was used for identifying the depreciation amount for tax purposes. Further inquiry revealed that the Agency does not tag its fixed assets and the last time the Agency conducted a physical inventory was in 2001.

Bank Reconciliations

Section 4.011 of the A-C Handbook states that bank reconciliations should be prepared within 30 days of the bank statement date and signed and dated by both the preparer and the reviewer. We reviewed the bank statements for each month during 2002 and noted the following:

- None of the 12 bank reconciliations were signed/dated by the preparer/reviewer. Therefore, we were not able to determine whether the bank reconciliations were prepared within 30 days nor were we able to determine whether timely reviews had occurred as required by the A-C Handbook.
- Four outstanding checks that were issued over a year ago have not been cleared by the bank nor have they been cancelled by the Agency.

Credit Card Usage

We also noted that the Agency identified two credit card payments to Avis Rent-A-Car as a personal expense. Although the charges were repaid by the CEO, employees should not be using the Agency's credit card for personal charges.

Recommendations**Guardians' management:**

7. **Ensure that the Agency's fixed asset report properly identifies the fixed asset and includes the serial number.**
8. **Perform a physical inventory of all fixed assets, at least annually, to ensure that all fixed assets are accounted for and maintained in proper working order.**
9. **Ensure bank reconciliations are reviewed and approved by management on a monthly basis and that all reconciliations are dated and signed by the preparer and reviewer.**
10. **Review and cancel any checks that have not been negotiated within six months and reissue, if appropriate.**
11. **Establish a policy to prohibit employee's use of the Agency's credit card for personal use.**

Payroll/Personnel Controls

Guardians' payroll and personnel procedures are not in compliance with the Circular, CDSS MPP, Title 22 and the A-C Handbook. We sampled twelve employees and performed testwork to determine if Guardian has adequate controls for payroll and personnel functions. Our testwork revealed the following:

- Four (33%) of 12 employee personnel files did not indicate the employee's salary. Therefore, we could not confirm that the employees were compensated appropriately.
- Three (25%) of 12 employee personnel files indicate a lower salary rate than the rate reported on the ADP report.
- On one (8%) of 12 employee time cards, the hours worked were not properly calculated.
- Two (17%) of 12 employee time cards were not signed by the employees.
- One (8%) of 12 employee time cards was not signed by the supervisor.

Recommendations

Guardians' management:

- 12. Ensure that employee personnel files contain current authorized salary amounts or hourly rates of pay approved by management.**
- 13. Ensure employee time cards are computed correctly, signed by the employee and approved by the employee's supervisor.**